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# Appendices

## APPENDIX I

### ADVANTAGES AND DISADVANTAGES OF SHIPPING CONFERENCES AND AGREEMENTS IN THE AMERICAN FOREIGN TRADE

(Reprinted from pp. 295-307 of the Report on "Steamship Agreements and Affiliations in the American Foreign and Domestic Trade," prepared by S. S. Huebner.)

#### ADVANTAGES OF SHIPPING CONFERENCES AND AGREEMENTS

Practically all steamship representatives who testified before the Committee, as well as a majority of the leading American exporting and importing firms who expressed their views on the subject to the Committee, contended that shipping agreements, conference relations, or oral understandings which steamship lines have effected among themselves in nearly every branch of our foreign trade are a natural evolution and are necessary if shippers are at all times to enjoy ample tonnage and efficient, frequent, and regular service at reasonable rates. Such agreements, it is contended, are a protection to both shipper and shipowner. To the shipper they insure desired stability of rates and the elimination of secret arrangements with competitors. To the shipowner they tend to secure a dependable return on the investment, thus enabling the lines to provide new facilities for the development of the trade. Furthermore such agreements are held to furnish the means for taking care of the disabilities of the weaker lines, whereas unrestricted competition, based on the survival of the fittest, tends to restrict the development of the lines and in the end must result in monopoly. Briefly outlined, the advantages secured through agreements and coöperative understandings, as presented to the Committee, are the following:

#### *I. Improvement in service:*

##### *1. Regularity of service, resulting in the following advantages:*

(a) Opportunities to merchants for shipping are increased, resulting in a much greater increase in the volume of trade, especially to new or remote markets, than would be the case if goods could be supplied only at irregular intervals.

(b) Fixed dates of sailings at regular intervals enable shippers to work with smaller stocks than they otherwise could, thus reducing unnecessary risks, as well as storage charges.

(c) Makes unnecessary the engaging of cargo space considerably in advance, and shippers incur no penalty or other inconvenience if unable or unwilling to ship goods at the last moment.

(d) Merchants are enabled to make forward contracts for the delivery of goods at a definite date. This factor is important in connection with sta-

bility and uniformity of rates. In view of both factors merchants can make contracts for forward delivery at a definite date and price, including cost, freight, and insurance. Such contracts are of vital importance in the trade of today, which is largely conducted in large quantities and on the basis of orders placed months ahead and calculated on a small margin of profit.

(e) Without regularity of service in the long-distance voyages, or in the new and undeveloped services, American merchants and manufacturers would be operating at a great disadvantage as compared with European merchants, who now have the benefit of a more highly developed service from European ports to foreign markets.

(f) A better distribution of sailings is secured. Under unrestricted competition a number of vessels may sail from the same port within a day or week, resulting in no sailings from that port for a considerable period thereafter. Under a system of coöperation, however, both the time and ports of sailings are agreed upon, thus "avoiding the waste involved in several ships calling at ports which require only one and giving an excess tonnage on one date and a corresponding lack of tonnage at other times."

(g) A large portion of American exports coming from the interior, it follows that, with regular sailings, goods arriving late and missing one steamer may be dispatched by the next steamer of another line, thus causing only a short period of waiting, with the result that unnecessary port charges are avoided, the accumulation of goods is prevented, and the loading and delivery of cargo are facilitated.

2. *Greater security is given to capital invested in the steamship business* and because of this greater security shipowners are enabled to supply an adequate number of vessels of a higher class and greater speed than the ordinary tramp. Moreover, conditions surrounding most trades are dissimilar as regard the depth of water at the ports, the nature of the cargo offered, and the quantity of freight moving during certain seasons. By giving vessel owners a dependable return on the investment they are enabled to provide new facilities for the development of the trade and adequately to adapt the sailings, speed, and equipment to the particular trade. To many merchants the adaptability of the service to the requirements of the trade is highly essential, because of the nature of their exports and imports. The benefits claimed for this advantage are the following:

(a) Cargo is delivered in better order and with greater dispatch and regularity.

(b) Insurance premiums on cargo are reduced, and the rate of insurance may be counted upon as more uniform and stable, thus again favoring merchants in making contracts for the forward delivery of goods.

(c) Loss of interest on the cargo while in transit is reduced.

(d) Shippers are relieved of anxiety as to the class of vessel by which their freight will be shipped.

## *II. Stability of rates over long periods of time:*

1. Removes the inconvenience which would exist if merchants and shippers were obliged to quote different propositions on nearly every consignment, thus eliminating what was formerly an undesirable speculative risk

under the open competitive system. A uniform selling price in foreign markets is considered highly essential by merchants. Moreover, conference lines seek to give reasonable notice of alteration in rates, and when increasing their rates shippers are allowed to declare outstanding contracts at the lower rate.

2. Reduces the complaints from buyers abroad. American exporters assert that during periods of rate competition complaints from foreign buyers are numerous if sales to them do not happen to be on the lowest basis of cost and freight, while if there is uniformity in rates, even though these rates be on a higher level, it is seldom that foreign consignees make complaints.

3. Enables shippers and merchants to calculate laid-down costs and sell goods for delivery in the future. American exporters assert that such contracts for future delivery are today a necessity, and in this respect nothing is regarded so detrimental to the export trade as uncertainty regarding sailings and violent fluctuations in freight rates. Fixed rates under a system of coöperation, on the contrary, make possible the contracting for space for months, for a year, or even longer in advance, if desired. Such facilities are enjoyed by foreign exporters to competitive markets, and it is essential that American shippers should be placed on an equally favorable basis. Prominent exporting firms have again and again asserted to the Committee that they have experienced various rate wars during the past 10 to 15 years and are convinced that the present condition of fixed rates and regular sailing opportunities place all merchants upon the same basis as regards their estimates on contracts and produce much better results for the exporter and manufacturer than could be possible under the old order of things,

4. During periods of rate cutting buyers abroad generally pursue a policy of buying from hand to mouth instead of placing large orders for shipments ahead, because they never know what the goods will cost them by the time the same are received. If they foresee serious fluctuations in rates during the one or more months which are required to dispose of large lots of merchandise, they prefer to buy small lots, even at a greater cost, in order to have a chance to meet their competitors.

5. During periods of rate cutting steamship owners are reluctant to make forward contracts for the carriage of freight because of unwillingness to sell cargo space for the future at a loss.

6. While competition in rates between conference lines ceases, competition in facilities continues. Although the conference system largely results in placing rates outside the influence of competition, by pursuing a policy of charging "what the traffic will bear," these rates must ultimately be reasonable for the following reasons:

(a) It is to the interest of the lines not to charge rates detrimental to the development of traffic. Shipowners depend for success on the good will of shippers, and to build up business must establish rates which will enable their American clients to compete successfully with foreign merchants engaged in the same trade.

(b) Shippers are not placed at the mercy of the conference lines, because in nearly all the important branches of the American foreign trade there is competition from regular lines serving European merchants to the

same ports. The lines serving American merchants must meet the rates of the regular lines trading to the same ports from foreign countries. In other words, world conditions govern ocean rates to and from the United States.

(c) If the rates of the regular lines, to quote the New York committee, "should exceed or even approximate the chartered rate for tramp steamers, large shippers immediately protect themselves by the employment of tramps for the transportation of their shipments. Small individual shippers who can not accumulate merchandise in quantities sufficient to justify the charter of tramp steamers are at such times served by charter brokers, who are always ready, when rates by the regular lines advance to such a point that a profit can be made by charter, to lay chartered ships on the berth, themselves accumulating the shipments of numbers of small merchants, who by this means can always protect themselves against oppression." (Vol. 2, p. 1363.)

Despite the great increase in ocean rates in recent years the great majority of leading exporting and importing houses which have expressed their views on the subject to the Committee consider the present rates charged by the steamship lines as fairly reasonable when compared with charter rates prevailing the world over, and taking into consideration the capital invested, the increased cost of operation, the better character and greater speed of the vessels, the greater regularity of sailings, the maintenance of depreciation and sinking funds, the facilities of the ports of call, and the frequent absence of return cargo. While many of the firms express a desire for a lower level of rates than exists to-day, provided they are uniform, they frankly admit that the present high rates, as long as they are steady over considerable periods of time and equally applicable to all without rebates or other special favors, do not militate against them nearly so much as would a lower level of rates if the same was a fluctuating one and was accompanied by irregularity in sailings. Moreover, the large increase in the number of steamers and in their size during the past 15 years in nearly all divisions of our foreign trade is pointed to as showing the desire of the lines to keep pace with the growth of the country's export trade. It was also the general assertion that the regular lines give shippers advantages as contrasted with tramp steamers. Not only are their rates uniform and their sailings reasonably regular, but their steamers are faster and their service better, and in the main these advantages overbalance the increase in rates.

*III. Uniform freight rates secured to all merchants.*—Uniform rates protect the small against the large shippers, and relieve all shippers from the effects of underhanded discrimination. Under open competition powerful shippers, or combinations of shippers, can obtain preferential rates, while under a system of coöperation it is not to the interest of the conference to give special terms to powerful clients. Rate wars are detrimental to the interests of small shippers because the object in every rate war is to obtain the freight of large shippers by offering special rates. The inevitable result of rate wars is a gradual monopolization of the trade in given commodities by the more powerful shippers.

Almost without exception, the testimony before the Committee of conference line representatives shows that it is the purpose of their lines to charge

uniform rates and to extend equal opportunities to all shippers. Practically all shippers, also, who in their statements to the Committee were favorable to agreements and conferences, took the view that to maintain equal treatment toward small and large shippers it is absolutely necessary that steamship lines should be allowed to coöperate, and that the improvement toward greater fairness between shippers is due to the fact that the lines have coöperated. Competition in the steamship business was regarded by them as the demoralization rather than the life of trade; as the means of introducing uncertainty instead of certainty, and inefficiency instead of efficiency; and that, inevitably, while all shippers are placed ultimately at a disadvantage through open competition, the small shipper fares much worse than his stronger competitor.

*IV. Prevent the elimination of weaker lines in the various trades.*—Unrestricted competition, based on the survival of the fittest, tends to restrict the development of the lines and in the end results in monopoly. Just as rate wars result in the monopolization of trade by the larger shippers, so also do they result in the monopolization of the carrying trade by one or a few of the most powerful carriers. This is especially true in the long-voyage trade where pooling becomes desirable. Here equal rates can not be charged by all the lines in a given trade unless all are equal in speed and equipment. High-class freight, paying the most remunerative rates, would go to the best ships, while the least remunerative cargo would be shipped by the inferior boats. As reported by the New York Committee of steamship representatives: "By means of pooling the weaker line is compensated for its failure to obtain a fair share of the more remunerative goods and by living alongside the strong line adds to the total of the shipping facilities which the trade may reasonably require." (Vol. 2, p. 1368.)

In addition to the combinations by agreement there are numerous instances of consolidations among steamship lines by actual amalgamation or through stock control of subsidiaries. (The most notable examples of such consolidations are the International Mercantile Marine Co., the Royal Mail Steam Packet Co., the Hamburg-American Lines, and Furness, Withy & Co.). This movement toward actual consolidation by ownership, various witnesses have emphasized, would have taken place more rapidly and on a much larger scale if the making of steamship agreements and conferences had been impossible. In the absence of coöperation through written or oral agreements, according to these witnesses, only two alternatives present themselves, viz., consolidation by actual ownership or the elimination of the weaker lines through cut-throat competition.

*V. Maintenance of rates from the United States to foreign markets on a parity with those from other countries,* thus enabling American merchants to compete successfully with foreign merchants. It has been the contention of all the conference line representatives who have appeared before the Committee that their lines make every effort to keep American rates to foreign markets on a parity with European rates. The Committee has received only 27 complaints from exporting interests charging that American and European rates to the same destination are not kept on a parity, to the detriment of their business; and it should be noted that less than half of these complaints

present any definite data tending to confirm the complainant's charge. A majority of the complaints are general in character and merely call attention to the desirability of having some properly constituted authority investigate this subject from time to time. In answer to these charges the New York Committee of steamship line representatives maintains that—

while occasional differences arise, as a rule shippers are not charged higher rates from this country than shippers in Europe are called upon to pay on the same commodity. In this respect the lines running from ports of the United States are at a decided disadvantage compared with the European services, because the classes of cargo offered from American ports are of lower grade than those received by the European lines. A ship sailing from Europe will obtain better freight earnings because it carries a larger percentage of high-class cargo, while the expenses incurred in United States ports are always considerably higher than those of a vessel loaded at European ports. Besides, many of the lines running from this country to foreign ports, unlike the European lines, obtain no return cargoes, and are obliged to return to our ports either directly in ballast, or via some other loading port. These facts tend to increase the running expenses of the American services and would therefore justify a somewhat higher freight rate from American ports.

*VI. Reduction in the cost of service, eventually resulting in lower freight rates for a high standard of service.*

1. By eliminating wasteful competition among the lines, thus reducing the aggregate cost of service of all the lines.

2. By arranging the order of the sailings of the several lines at definite dates, and by regulating the sailings of the vessels of the various lines in such a manner as to prevent a number of vessels calling at ports which require only one at a given date.

*VII. Cost of service can be more economically distributed over the traffic so as to develop the trade.*

1. By reducing rates on articles where the rate would bear too heavily, and securing compensation on other items where the value and size justify the same.

2. By enabling the lines to view the trade "not only as it is, but as it may become." Certain ports may be placed on a reasonable footing in freight rates, although the present movement of freight would warrant much higher rates. This is especially true where pooling is practiced. "In connection with the operation of a steamship conference," as reported by the New York Committee,

pooling is nothing more than an equalization of expenses and earnings by the component members of a conference with the object that the conference shall furnish all the facilities that are demanded for the transportation both of profitable and unprofitable cargo and for the accommodation of the least profitable as well as the most profitable ports. Under its operations regu-

larity of service is maintained, whether full cargoes are offered or not, whether the cargoes offered at any particular time be of a more or a less profitable kind, and whether the going rates as embodied in the tariff be profitable as compared with the general market value of tonnage or not; it enables the conferees to give service within the area of the conference operations at small or unimportant ports, often at a loss, which would have to be neglected unless such loss could be equalized by being brought into a division of the earnings with the other vessels which serve the more important ports. The conferences, in substance and effect, become partners for the purpose of supplying tonnage for the particular trade in which the pool operates, and they divide their earnings and losses in proportion to the capital represented by tonnage which is furnished to supply the needs of the trade. (Vol. 2, pp. 1367-1368.)

3. By increasing the number of sailings to the smaller ports. On most routes there are many ports of destination which should be served, and no one owner could serve all except at great expense, such as extra steaming and port charges, and by greatly prolonging the voyage to the dissatisfaction of consignees. The natural tendency where all lines are competing would be for each owner, in order to compete in rates and speed, to avoid extra expenses and loss of time by not calling at the comparatively unimportant ports. Without pooling, it is asserted, the United States would have no direct communication to-day with many of the minor ports throughout the world whose aggregate trade with this country is very considerable. If the pooled lines, however, have agreed to compensate each other for the losses, these undesirable ports will be served as may be reasonably required.

4. By equalizing the earnings on large contracts over the members of a joint service. As expressed by the New York Committee,

Our large manufacturers and exporters have extensive outstanding contracts for the supply of rails, locomotives, car material, bridge work, oil, etc., to various ports. No one service alone could possibly handle such products. Shippers are often obliged at stated periods to make large shipments of a kind of material which would be quite unsuitable for a steamer, such as rails, on which the earnings would be much below those of succeeding steamers which would carry other portions of construction material covered by the same contract, the rates for which would be far more remunerative. Only a joint service which could equalize the earnings under the whole contract would carry the materials covered by these large contracts without charging freight rates so prohibitive as to deprive the American manufacturer of the opportunity of securing the contracts in competition with foreign manufacturers. So the conference lines are able to maintain their schedules and provide for the export trade even at a loss to the individual ship. (Vol. 2, pp. 1368-1369.)



## DISADVANTAGES OF SHIPPING CONFERENCES AND AGREEMENTS, AS NOW CONDUCTED

*I. The monopolistic nature of such conferences and agreements.*—Nearly all the objections advanced against steamship agreements relate to the limited monopoly, at least, which the conference lines are able to exercise over the trade in their respective areas. Briefly outlined the objections advanced under this heading are the following:

1. All monopolies are liable to abuse, and in our foreign carrying trade the monopoly obtained by the conference lines has not been subjected to any legal control. While carriers by land are supervised and must conform to statutory requirements in the matter of rates and treatments of shippers, steamship companies, through private arrangements, have secured for themselves monopolistic powers as effective in many instances as though they were statutory. Even granting the advantages claimed for steamship conferences and agreements, all may be withdrawn in the absence of supervisory control without the shippers having any redress or protection. The lines are under no legal obligation to continue these advantages. They exercise their powers as private combinations and are apt to abuse the same unless brought under effective governmental control.

2. The primary object of such conferences and agreements is to prevent new lines from being organized in a trade and to crush existing lines which refuse to comply with the conditions prescribed by the combination, or which, for other reasons, are not acceptable as members of the conference. The methods which have been adopted from time to time to eliminate competition show the futility of a weak line attempting to enter a trade in opposition to the combined power of the established lines when united by agreement. By resorting to the use of the "fighting ship," or to unlimited rate cutting, the conference lines soon exhaust the resources of their antagonists. By distributing the loss resulting from the rate war over the several members of the conference, each constituent line suffers proportionately a much smaller loss than the one line which is fighting the entire group. Moreover, the federated lines can conduct the competitive struggle with the comfortable assurance that, following the retirement of the competing line, they are in a position to reimburse themselves through an increase in rates. To allow conferences, therefore, generally means giving the trade to the lines now enjoying it. Only a powerful line can hope to fight its way into the trade, and with the inevitable result, if successful, that it will join the combination or be allowed to exist by virtue of some rate understanding.

3. Conference lines, it was asserted to the Committee, are enabled to arrange rates arbitrarily, both with reference to the general level and particular commodities; and the rates now charged were considered excessive when compared with rates (1) charged by tramp or chartered steamers, or (2) previously charged by line steamers in the same trade, or (3) charged by lines in other trades, or (4) when considered in relation to the profits of the companies. This complaint, however, necessitates the difficult task of determining what constitutes a "reasonable rate," involving a study of—

(a) The factors that influence the rise and fall of the general level of rates.

(b) The differences in the nature of the service rendered by liners and tramps.

(c) The character of the vessel and the expensiveness of operating the same.

(d) The stability of rates over a long period of time, chartered rates fluctuating much more violently.

(e) The different conditions surrounding each trade route as regards the nature of the service, the quantity of the cargo, and the opportunity for effecting combination cargoes.

(f) What constitutes a fair profit to the line, all factors considered.

4. Conference lines, through their monopolistic powers, so completely dominate the shippers with whom they deal that these shippers can not afford, for fear of retaliation, to place themselves in a position of active antagonism to the lines by openly giving particulars of their grievances. This condition is well illustrated by the frequency with which communications, addressed to the Committee, referred to the confidential nature of the information furnished. The various lines, constituting a conference, have the same interests and their organization is effective. Shippers, on the contrary, live far apart, and because of their different and frequently antagonistic interests can combine for mutual protection only with the greatest difficulty.

5. Conference lines, in view of the absence of competing lines, sometimes seem indifferent to the landing of freight in proper condition. A considerable number of shippers have complained to the Committee that they have experienced endless difficulty in collecting honest claims for damaged goods, loss of goods, or overcharges, and that the lines in some cases are extremely arbitrary in making settlements.

6. Conference lines are apt to become increasingly powerful within their respective areas, even to the extent of controlling the tramp traffic, until their limited monopoly of to-day will become practically unrestricted. It is argued that this tendency has been apparent in various trades and that, when the monopoly is complete, the lines will appropriate the advantages gained to themselves.

*II. In some conferences the lines have arbitrarily increased their rates without giving due notice to the trade, thus causing heavy losses on contracts for future delivery, which were based on the freight rates prevailing at the time the contracts were made.*

*III. Steamship conferences and agreements as now conducted are in most instances secret, and shippers have no means of knowing whether the conditions claimed by the lines for such conferences and agreements are true or not. Conference and rate agreements, and pooling arrangements, should be made with the full knowledge of some legally constituted authority in order (1) to safeguard the interests of shippers and (2) to make it possible for shippers to file complaints without fear of retaliation.*

*IV. Some lines grant special rates to large shippers under contracts based on such large quantities of freight that small shippers can not possibly furnish*

*an equal amount, thus discriminating between shippers and preventing competition.*

*V. Some of the conference lines do not observe the customary conference usages in respect to the equal treatment of shippers in rates and special accommodations.*

*VI. The policy of many conference lines not to publish their tariffs or classifications, although such publication would prove a great convenience to shippers and would constitute a guarantee that rates were not altered or articles transferred from one class to another, for the benefit of favored shippers.*

*VII. That deferred rebate systems are objectionable and should be prohibited for the following reasons:*

(1) By deferring the payment of the rebate until three or six months following the period to which the rebate applies ship owners effectively tie the merchants to a group of lines for successive periods. In this connection it is argued that the ordinary contract system does not place the shipper in the position of continual dependence that results from the deferred rebate system.

(2) That the system is unnecessary to secure excellence and regularity of service, a considerable number of conferences being operated to-day without this feature.

## APPENDIX II

### METHODS OF CONTROLLING COMPETITION BETWEEN DOMESTIC CARRIERS BY WATER

(Reprinted from pp. 409-412 of the Report on "Steamship Agreements and Affiliations in the American Foreign and Domestic Trade.")

#### METHODS OF CONTROL SUMMARIZED

The numerous methods of controlling competition between carriers by water in the domestic trade, referred to in the preceding pages, may be grouped under three headings, viz., (1) control through the acquisition of water lines or the ownership of accessories to the lines; (2) control through agreements or understandings; and (3) control through special practices. Briefly summarized, the various methods adopted for the control of competition are the following:

*I. Control through the acquisition of water lines or the ownership of accessories to the lines:*

(1) Direct railroad ownership and operation of water lines, the railroad's marine interests not being incorporated separately.

(2) Railroad ownership through subsidiaries, or subsidiaries of subsidiaries, either rail or water.

(3) Control by lease, especially in the case of canals.